COMMENT/ *By George H. Hempel*

Asset/Liability Management: The Focus Changes for Banks

The environment of the 1990s will require commercial banks to continue revising the focus of their asset/liability management. During most of the 1960s banks focused primarily on asset management. Funds were obtainable at costs with regulatory ceiling, so that high-performing banks were generally able to employ their funds in high-yielding assets.

Banks tended to struggle more with the liability side in the 1970s. Many banks seemed to believe they could profitably employ funds if they could obtain them at anything like a reasonable cost. Finding funding sources (often circumventing Regulation Q) and managing the cost of funds became major asset/liability management objectives.

The rising and volatile rates of the late 1970s and 1980s changed the focus of asset/liability management to the maintenance of an adequate margin between the returns on assets and the costs of funds. The focus of maintaining an adequate interest margin, even if interest rates fluctuated widely, led to emphasis on interest sensitivity management, gap management, duration management, and simulation.

Asset/liability management became more complex because of the continuing trend to deregulation in the financial-services industry. Ceilings on interest rates were removed.

Banks and other financial intermediaries were allowed broader lending and borrowing powers. Competition among increasingly similar financial intermediaries, and between these institutions and direct financial flows without an intermediary, intensified.

By late 1980s the impact of deregulation, intensified competition, and weak management was enough to cause severe financial stress on banks in areas with weak regional economies and on much of the savings and loan industry. These problems will be more difficult to resolve and their cost higher than is now admitted. The impact on the restructuring of financial institutions and regulatory practices has just started and will be felt throughout the 1990s.

Trends for the 1990s

While it is impossible to predict the exact environment that will affect the focus of bank asset/liability management, many trends have started that seem highly likely to continue well into the next decade. Two of the changes are endogenous: 1) changes in the structure of the banking and financial services industry and, 2) changes in the regulatory environment. The remaining four changes are broad exogenous changes in the financial markets in which banks must operate.

The structure of the banking and financial services industry will change markedly. The number of all types of financial institutions will be dramatically reduced during the next decade.

Remaining geographic and business-activity barriers will be removed, and differences among types of financial institutions will largely disappear by the mid-1990s. Successive waves of acquisitions and mergers will produce major new financial institutions that will rival today's large money-center banks in prominence and size.

Passage of risk-based capital rules and of the Financial Institutions Reform, Recovery, and Enforcement Act in the late-1980s are probably the tip of the iceberg in coming regulatory changes. Reemphasis on capital, and relating capital required to the perceived risk of broad asset categories, becomes fully effective by 1993.

"Differences among types of financial institutions will largely disappear by the mid-1990s."

The 1989 reform act encourages industry consolidations and strengthens the regulatory structure for likely future regulatory changes. The most likely regulatory changes are probably some type of risk-related deposit insurance and a shift toward market value instead of historical cost accounting for depository institutions.

Evolution of the Markets

Three changes in the financial markets in which banks operate stand out:

- The globalization of money and capital markets.
- The evolution of numerous new securities in these markets.
- The development of new secondary markets for many financial assets.

The second and third changes have led banks to securitize many financial assets.

The pace of globalization of the money and capital markets seemed to quicken during the very tight monetary situation of the early 1980s. In the early 1980s, larger banks could purchase funds and raise capital in nearly all the financial markets in the world. However, many bank customers did not have access to these money and capital markets.

By 1990, many medium- and all larger-size businesses in the United States and other countries had the choice to raise funds in financial markets throughout the world. The ability of larger American corporations to finance themselves in many markets has reduced banks' share in financing such corporations and reduced the interest spread banks earn on the portion of such financing that banks have retained.

Development of New Securities

Many new securities have been developed in the past decade or so. Furthermore, the rate of development appears to be increasing.

Early innovations, such as zero-coupon securities and bonds with put options, have been replaced with increasingly complex issues, such as bonds adjusted for changes in inflation and exchange rates and dutch-auction preferred stocks. I estimate that there were close to 100 new types of securities that first appeared in the 1980s.

Banks appear to be affected in at least three ways. First, they can issue and have issued such new securities to finance their own needs. Second, they can ac-

See **COMMENT** *page* **12**

Dr. Hempel is Corrigan professor of finance at Southern Methodist University, Dallas. He is associate director of the Southwestern Graduate School of Banking and teaches at Stonier, Pacific Coast, Western States, and Colorado schools of banking.

CRIME BLOTTER/ *By Tom Leander*

Gallery Rogue Back in Prison

Thomas Termatto, convicted of bilking six New York state banks out of more than $500,000, was sentenced last week to a minimum of 28 months and a maximum of seven years in prison.

State Supreme Court Justice Eugene Bergin also ordered Mr. Termatto, 33, to pay $511,000 in restitution to the banks and other victims who lost money because of his illegal activities.

In late 1984, Mr. Termatto led investors to believe he would be creating an exclusive art gallery on the top floor of a landmark skyscraper in downtown Rochester. The same site, he emphasized, had housed a prestigious gallery at the turn of the century.

According to prosecutors, Mr. Termatto told investors the gallery would act as a magnet to attract funds for a multimillion-dollar renovation of the historic building.

Mr. Termatto then obtained loans from a dozen different local banks, saying the money would be used to finance the gallery. He used the same portfolio of blue-chip stocks as collateral in each case.

The prosecutor, Monroe County Assistant District Attorney Kathleen Majewski, said Mr. Termatto sent the banks forged letters – on the letterhead of Mason, Lewis, and Grant, his New York broker – to verify his ownership of the stocks.

To promote the gallery – and himself – Mr. Termatto threw lavish parties at his home. The final soiree, in March 1985, was a grand-opening bash at the gallery. On that occasion, Ms. Majewski said, Mr. Termatto covered the walls of the gallery with paintings on loan from contemporary artists.

But the gallery never opened, and the bank loans were never repaid. Mr. Termatto fled on an extended vacation to Europe.

The lenders he victimized were Chase Manhattan Corp.'s Chase Lincoln First Bank, Rochester; Central Trust Co., Rochester, a subsidiary of Midlantic Corp.; Manufacturers Hanover Trust Co.; Marine Midland Bank; KeyCorp's Key Bank of Western New York; and First Federal Bank, Rochester.

To obtain the loan from First Federal Bank, Mr. Termatto pledged a luxurious BMW as collateral, but he was only renting the car, Ms. Majewski said.

Mr. Termatto was arrested and tried in 1987. He served 39 months in jail before a higher court overturned his original conviction, saying the trial court never adequately advised him of the perils of acting as his own attorney.

Following his second conviction, Ms. Majewski unsuccessfully asked the judge to impose a longer sentence, arguing that Mr. Termatto is eligible for parole almost immediately based on the time already served.

* * *

Securities Recovered in U.K.

British police arrested three men at London's Heathrow airport last week after $130 million of stolen bank securities were found in their baggage.

The 80 certificates of deposit found were part of securities valued at nearly $500 million that had been taken at knifepoint from a British money broker's messenger. The three men were all traveling to London on a British Airways flight from Dublin.

The Bank of England has issued a warning to banks worldwide concerning the stolen securities, which included CDs issued by a number of British and foreign banks.

— By John Evans

* * *

Lawyer Charged in Forgery

A lawyer from Manhasset, N.Y., was arrested last week on charges of fraudulently obtaining a $5.2 million loan from the Banking Center, Philadelphia, by forging signatures on promissory notes to convince bankers that he had backers in a limited partnership.

Attorney Gerald Cotter was approached in 1985 by a business acquaintance, Patrick Fawrley, who was seeking limited partners to develop houses in Bucks County, Pa., according to Nassau County assistant district attorney Connie Gentile. Mr. Fawrley, who had known Mr. Cotter for 19 years, has not been charged with any crime.

Mr. Cotter allegedly presented the Banking Center with documents naming 24 people who promised to invest $150,000 to $300,000 each. The documents included forged promissory notes pledging capital to the partnership.

But the partnership failed to make monthly payments on the $5.2 million loan in December 1987. When the bank tried to contact the investors whose names were signed to the promissory notes, it discovered the forgeries.

Defense attorney Kenneth J. Weinstein says that Mr. Cotter had no intention of defrauding the bank. □

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DEALS

Trading in Nonperforming Loans Gains Appeal for Commercial Banks

Continued from *page* 1

Bankers Trust New York Corp. are already trading actively. And sources said Citicorp is looking at setting up a distressed unit, as are a number of foreign banks.

A spokesperson at Citicorp said the bank was not trading currently and declined further comment.

"There is not a great deal of activity yet, although there's a great deal of interest," said Arthur B. Schoen Jr., managing director at BT Securities Corp., the securities unit of Bankers Trust.

Bankers stress that the bad-loan market is not a way for them to dump their loans. Rather, they believe it is a way to complement their other bankruptcy-related activities such as workout groups and debtor-in-possession financing.

Essentially an offshoot of the thriving secondary market in which healthy loans are routinely sold, trading in distressed loans is still illiquid.

Nonstandard Documentation

While that creates inefficiencies that banks can take advantage of, it is also an impediment to growth. One big problem is that documentation, which is not standardized, is difficult to transfer.

The development of the market depends on the willingness of banks – weighed down with souring real-estate and leveraged loans – to sell loans at a discount.

The market includes actual nonperforming loans as well as performing loans to some companies that have stumbled. The loans of R.H. Macy & Co., for instance, are being quoted at sharp discounts by some traders, even though the struggling company is still current.

Banks Awaken to Market

Wall Street firms are the biggest players in the nascent market for defaulted corporate loans, but banks are now recognizing it as a market they cannot afford to ignore.

"There's a growing interest in the market of distressed situations," said Ms. Ousterhout, whose unit makes a market in bad loans. "But calling it 'trading' might be ahead of the market."

Ms. Ousterhout believes the roughly $200 billion in highly leveraged transactions will provide grist for the troubled loan market.

The size of the distressed-loan market is thought to be as high as $75 billion.

The pressure to sell down these loans is especially acute on regional banks, said Christopher L. Snyder, president of Loan Pricing Corp. He believes regionals will be a source of supply for the market because of the need to clean up their balance sheets.

They have borne "the burden of regulatory compliance," and investors and banks' boards of directors have put pressure on regional banks.

"They've been forced to sell at a discount," he said.

At the same time, demand is growing from savvy investors willing to wade through bankruptcy proceedings and workouts for the potential to receive as much as face value for defaulted, but secured loans.

T. Rowe Price Associates Inc.'s Recovery Fund LP purchases bank loans, as does the Foothill Group's new bankruptcy fund.

In addition, traditional investors in distressed bonds are becoming more interested in the loan market, said Ms. Ousterhout.

Market Makers

Such Wall Street firms as Bear, Stearns & Co. and Oppenheimer & Co. are known to make markets in distressed loans. Also active are the bankruptcy boutiques, Delaware Bay Co. and R.D. Smith & Co.

These institutions do not necessarily take positions in the loans. Often they act as brokers, matching buyers and sellers.

Historically, banks have been loath to sell loans at less than par, forcing them to take write-downs and set aside reserves for the losses, bankers say.

"Banks have tended to hang on until the bitter end," said one loan trader. The very idea of quoting corporate loans at a discount – like securities – is new to commercial bankers.

But the wave of troubled leveraged transactions, and increased regulatory concerns, have put pressure on banks "to raise cash and get the nonperforming assets off their balance sheet," said one bankruptcy specialist.

The size of the distressed-loan market is thought to be as high as $50 billion to $75 billion. Business failures, one proxy, surged to 49,719 in 1989 from 10,000 a year in 1980, according to Dun & Bradstreet Corp.

A study by Edward I. Altman, professor of finance in the Stern School of Business at New York University, tallied the total market value of private distressed debt at over $150 billion, with a book value of $225 billion. That includes private trade claims, private placements, and bank loans.

Mr. Snyder of Loan Pricing Corp., however, believes banks are better off holding onto loans rather than selling at a loss at inopportune times.

"Banks are selling just as others want to buy. Nonbanks are looking at credit trouble as an opportunity," he said.

He argues that banks should work to restructure loans instead of selling outright. "Banks are selling at the worst possible time," Mr. Synder said. □

Trump Organization Confirms Restructuring Talks with Banks

By WILLIAM GOODWIN

The Trump Organization, the main holding company of New York real estate developer Donald Trump, confirmed reports Monday that it is holding restructuring talks with its four major lenders.

The company is talking with the banking units of Citicorp, Chase Manhattan Corp., Bankers Trust New York Corp., and Manufacturers Hanover Corp., according to banking industry sources. The names of the banks and news of the restructuring talks were first reported in Monday's *Wall Street Journal.*

Though Trump is current on the bank loans, The discussions were prompted by the real estate downturn, and the banks' concerns that Trump's new Taj Mahal casino in Atlantic City, N.J., is not generating enough cash to cover debt payments, according to a source familiar with the situation.

Diversity of Lenders

However, the bank talks are complicated by the fact that Trump has "different institutions in different credits," a bank source noted.

"Currently, we are meeting with major banks and are having cooperative and constructive discussions," the Trump Organization said in a brief statement Monday.

"Based upon the excellent asset values and their long-term earnings potential, we are confident we will arrive at a mutually beneficial solution," the company added.

In apparent reaction to the front-page *Wall Street Journal* story, the press release began by saying: "The Trump Organization assets are among the best in America. They are unique, well positioned, and they have great long term value."

The Trump Organization calls its assets "among the best in America."

The *Journal* article called into question the value of Trump assets and the prospects of their sale at high levels. A Trump spokesman would not provide details of the bank talks, and Trump officials did not return phone calls. The banks also had no comment on the talks.

While Trump has an estimated $2 billion of bank debt, it is unclear how much is actually held by the four banks.

Chase, for example, provided first mortgages of $75 million for the Trump Tower as well as $200 million for Trump property on the West Side of Manhattan. But Chase subsequently sold off most of both loans.

Other Trump lenders include Japanese, German, and French banks.

"He's spread his exposure around," a banking source said. □

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Bad Property Loans Soar in New England

Continued from *page* 9

regions have tended to blame their real estate woes on the regulators.

"We did some complaining in 1985," he said, "But its a very real situation in the market that you have to deal with."

Officials of Bank of New England have said that its recovery from recent excesses may take years. The bank has embarked on a program that includes shrinking from $25 billion in assets to about $20 billion, setting up a collecting bank, and the sale of assets, including Maine National Bank and Bank of New England, Providence, R.I.

A Cluster of Problems

The Providence unit did not appear on the list of the banks with the greatest exposure of bad real estate to equity, but six of the eight Bank of New England units did at yearend, including the Maine subsidiary, which ranked 33d with bad real estate loans comprising 46.91% of capital. Bank of New England has since consolidated into only five units.

Thomas L. Lavelle, a spokesman for the holding company, said that company officials were confident the $151 million of reserves taken in the first quarter, although much smaller than the $1 billion taken the fourth quarter of last year, was "appropriate."

At the end of the quarter, he said, the company's primary capital – a broader measure of strength than equity capital, some bankers said, because it includes reserves – totaled $2.2 billion. Total nonperforming assets, primarily real estate loans, measured $2.25 billion.

A Trap in Demographics

"The major mistake by everyone up here is, they did not focus on the true demographics of New England," said James Moynihan, regional bank analyst for Advest Inc., Boston. "This is a region where we have zero population growth, and therefore one that couldn't possibly support the boom" that began in the 1970s.

"If the overall economy doesn't sink any further, I think [some New England banks] will be able to work out of it," Mr. Moynihan said. "But it's a good three- to four-year process, assuming things peaked in 1987."

One bank appearing for the first time on the Dec. 31 list was Dai-Ichi Kangyo Bank of California, Los Angeles, which had bad real estate loans equal to 39.65% of equity capital to rank 43d.

In another category, its ratio of bad real estate loans to total real estate loans was fourth worst after Bank of New England (27.22%) and two other small units of foreign banks, UBAF Arab American Bank, N.Y., 12.65%, and Bank of Tokyo Trust Co., N.Y., 8.11%. □

Solvent Texas Bank Units May Seek Bankruptcy Shield

By STEVE KLINKERMAN

DALLAS — In response to the Friday takeover and sale of nine of its 12 banks, National Bancshares Corp. of Texas as early as today will seek court protection under Chapter 11 of the U.S. Bankruptcy Code.

Attorneys representing the San Antonio-based bank holding company said National Bancshares hoped a bankruptcy judge would speed orderly settlements of some $35 million in creditor claims. Including its solvent banks in the South Texas towns of Rockdale, Laredo, and Eagle Pass, the company's assets are worth $5 million to $20 million, they said.

A key question in the impending bankruptcy proceedings is whether the Federal Deposit Insurance Corp. will try to exercise the "cross guarantee" provision.

Bailout Law Granted Right

With passage of the thrift reform law last August, the FDIC gained the right to seize assets of healthy bank subsidiaries to offset the costs of rescuing their failed affiliates.

The FDIC sold National Bancshares' nine failed banks to NCNB Texas National Bank, Dallas, in a transaction that ultimately could cost the agency more than $300 million.

Billing the three remaining healthy banks for that sum "would cause them to fail," said Robert Ott, a lawyer with Arnold & Porter who is representing the company. It hopes to persuade the FDIC to limit its claim to the $5 million it would stand to get if the three banks were sold, he said. □

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BankAmerica's Arizona Deal May Set Pattern

By TERESA CARSON

LOS ANGELES — With the announcement last week that it would acquire a failed thrift in Arizona, BankAmerica Corp. joined two of its California rivals and several other out-of-state banking companies with stakes in one of the nation's most depressed real estate markets.

Unlike Security Pacific Corp., First Interstate Bancorp, and others that suffered sizable Arizona losses in recent years, BankAmerica enters the state with little, if any, risk. Like other buyers of failed thrifts, it has the option of returning to the federal government assets it does not want to keep.

ANALYSIS: *Follow-up on the news*

The deal is the kind that could attract others who want to buy into a region that has nowhere to go but up.

Buyers could include those who lost out in the thrift regulators' auction of Western Savings and Loan Association, Phoenix.

BankAmerica last week agreed to pay $81 million for Western's 61 branches and $3.5 billion in deposits.

Bargain Hunter's Paradise

Most of the rest of the Grand Canyon State's troubled thrift industry remains in regulators' hands after having drowned in real-estate-related red ink. The institutions eventually to be sold include MeraBank, Phoenix, with $4.7 billion in deposits, and Pima Savings and Loan Association, Tucson, with $2.1 billion in deposits.

If BankAmerica's first major foray into Arizona is any indication, the state has all the earmarks of a bargain hunter's paradise – a status it is likely to retain until its economy turns around. Most observers of the Arizona market say the real estate market remains at rock bottom and recovery is still months away.

Hopeful Sign?

But some view BankAmerica's entry as a hopeful sign.

'I think it means Arizona has a hell of a future," said Gordon Murphy, executive vice president of the Arizona Bankers Association.

"We are through the major downside. I am quite comfortable with that," said Richard J. Lehmann, chairman and chief executive of Valley National Corp., Phoenix. "But I can't tell you when we'll start to see things turn up."

Some are a little more opti-

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INSIDE NEWS

CONSUMER

DESPITE FEARS of a sluggish economy, a number of major banks are continuing to extend consumer installment credit, and a few are aggressively upgrading their lending programs. *Page 6*

INTERNATIONAL

FRANCE'S PARIBAS has protected itself against losses in its entire $1.75 billion of Third World loans by insuring the unreserved portion of its exposure. *Page 10*

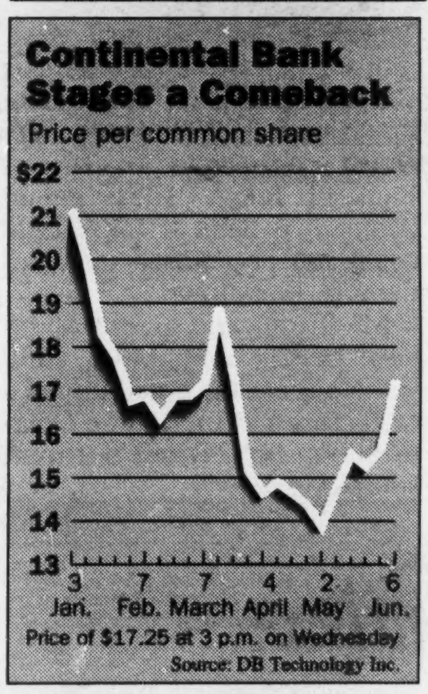
TECHNOLOGY

A LEGAL DISPUTE over Unisys Corp.'s image technology may slow some banks' plans to acquire check-imaging systems, bankers and analysts say. *Page 3*

MANAGEMENT

HIS REPUTATION for being "a little crazy" helps Anthony P. Terracciano overhaul an organization, he says; he is now trying to restructure First Fidelity Bancorp. *Page 8*

FINANCE



MOST BANK STOCKS retreated Wednesday from recent gains, but First Interstate Bancorp bucked the trend on a combination of renewed takeover talk and optimism about the company's future under new management. *Page 20*

LOWER INTEREST RATES in the past month have not lured banks and thrifts back into the debt markets to the extent that might be expected. *Page 20*

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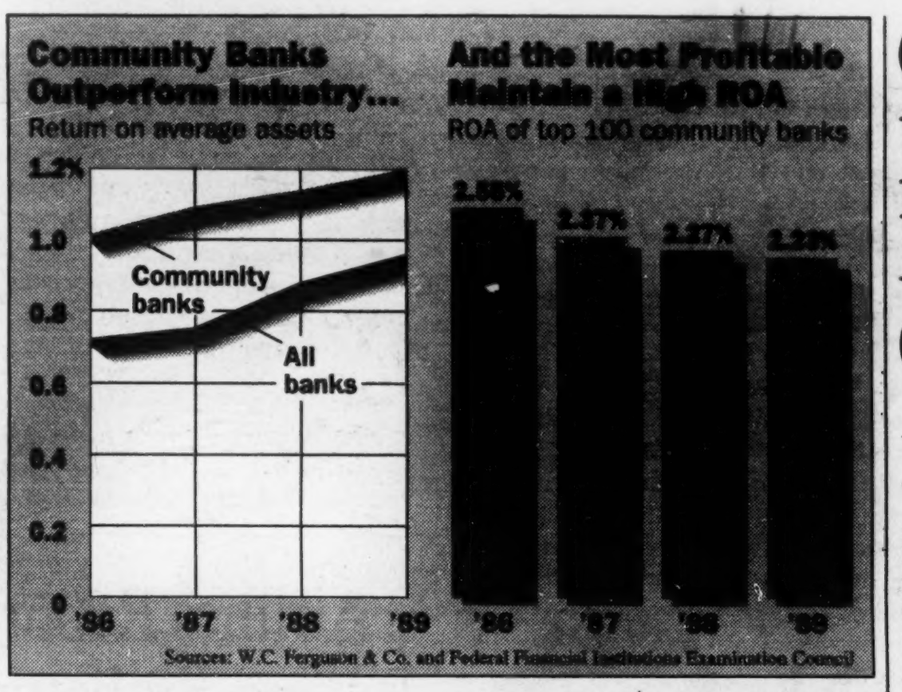

In Profits, the Community Banks Leave Big Competitors in Dust

By YVETTE D. KANTROW

NEW YORK — Community banks face tougher competition from big institutions. And they complain bitterly about the rising cost of complying with regulations. But meanwhile, they continue to outperform the rest of the industry.

The return on assets at the average community bank increased to 1.19% last year, from 1.13% in 1988, according to an *American Banker* survey.

Smaller ROA at Bigger Banks

The 1989 return was 34 basis points higher than the average of other banks, whose ROA grew to 0.85% from 0.77%.

In each of the four years of the survey, community banks – defined as those with assets of $50 million to $200 million and owned independently or by a one-bank holding company — outperformed their rivals. In the latest year, 3,604 banks met that definition.

Three Key Factors

Experts attribute the success of community banks to three factors:

- Community banks can offer personalized service that larger institutions cannot match.
- The relationships they build enable them to accurately gauge their customers' creditworth-

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Comptroller May Begin New Round Of Exams

By ROBERT M. GARSSON

WASHINGTON — Expressing concern about deteriorating loan quality in regions outside New England, Comptroller of the Currency Robert L. Clarke said Wednesday his agency might soon begin a new round of examinations of real estate loans by national banks.

"There are other places that have fallen into the condition of being overbuilt," Mr. Clarke told reporters after a hearing of the House Small Business Committee.

Sizable Increases Forced

He declined to specify which parts of the country he now has in mind but said their problems are not of the magnitude of New England's. Besides New England, the Comptroller's office has already examined the real estate portfolios of banks in the Southeast and Midwest, forcing some to make sizable increases in loan-loss reserves.

Earlier, in testimony at the House committee's hearing on credit availability in New England, Mr. Clarke said that when

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Massachusetts Puts Interstate Banking on Hold

By JED HOROWITZ

NEW YORK — Massachusetts banks that are eager to repel out-of-state invaders won a victory this week when the state Senate voted to delay a nationwide interstate banking provision until Jan. 1, 1993.

The Senate bill conflicts with a House version passed in April that would allow banks outside New England to move into Massachusetts as soon as the legislation becomes law. A joint conference committee of the two bodies must now work out a compromise.

Industry officials predicted that the legislators will compromise on a trigger date of Jan. 1, 1992, for nationwide banking. But they expect banks will have the option of approving friendly takeovers early in 1991.

Connecticut and New Hampshire earlier this year passed nationwide interstate banking bills, leaving Massachusetts the region's sole holdout. Massachusetts has allowed reciprocal

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Warnings of Losses on FHA Loans Prod Kemp to Call for Higher Fees

By DEBRA COPE

WASHINGTON — Spurred by warnings that the government's flagship program for first-time home buyers could become insolvent, the Bush Administration called on Wednesday for most borrowers to pay higher fees for FHA mortgages.

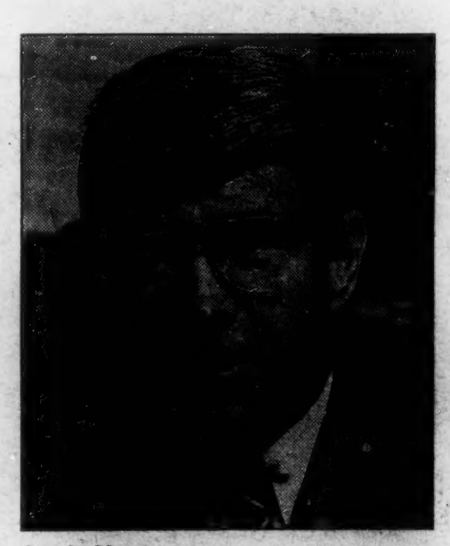
The plan is intended to minimize the possibility that the Federal Housing Administration's mutual mortgage insurance fund could require a taxpayer bailout by the end of the decade.

$271 Billion Insured

That fund is the FHA's largest that guarantees loans for single-family homes. The fund insured $271 billion in loans as of last September.

The General Accounting Office said Wednesday its audit of the fund showed a loss of $1.4 billion in the fiscal year that ended in September 1988, and the likelihood in the near term of a continued high rate of foreclosures.

As part of a plan to revamp the fund, Jack Kemp, Secretary



Jack Kemp
Secretary of housing

of housing and urban development, recommended imposing risk-based mortgage insurance premiums and ending the financing of most closing costs.

The fund needs to increase its income by $760 million a year to offset growing losses and rebuild equity. It was not clear how much fee income the proposals would provide.

See **FHA** *page* **11**

COMMENT / *By Melvin L. Burstein*

Banking System Safeguards Should Not Be Dismantled

" . . . along with the dismantling of these archaic laws, public policy officials concerned over U.S. competitiveness must overcome unfounded trepidation over the separation of finance and commerce."

— March 22 testimony of L. William Seidman, chairman, Federal Deposit Insurance Corp., before the International Competitiveness Task Force, House Committee on Banking, Finance, and Urban Affairs

Mr. Seidman testified that without his recommended changes to U.S. banking structure and powers, the U.S. banking system will lose its ability to compete in the global financial market. That loss will "weaken the viability of our banking system and . . . the economic strength of our nation worldwide," he maintains.

Mr. Seidman, who is not alone in his assessment, would go further than almost anyone else in restructuring the U.S. banking system and enlarging bank powers. He urges "dismantling of . . . archaic laws" – including Glass-Steagall, which separates commercial and investment banking, and the Bank Holding Company Act, which separates banking and commerce – to enable the formation of so-called universal banks.

Mr. Burstein, senior vice president and general counsel of the Federal Reserve Bank of Minneapolis, is its senior officer over banking supervision.

Banks Are Special

I have to wonder if Mr. Seidman and others have lost sight of why banks are subject to these and other laws regulating the way they do business.

The thesis of an essay by E. Gerald Corrigan, the immediate past president of the Minneapolis Fed and current president of the New York Fed, published in my bank's 1982 annual report, captures what I believe is the reason for such laws:

Banks are special. The banking system has a special place and set of functions in our economy.

The "archaic laws" Mr. Seidman refers to, among others, were put in place not to develop the largest or the most profitable banks in the world, but to provide a safe and sound banking system for the benefit of the U.S. economy. Anyone advocating major changes to banking structure and powers should have the burden of proving the need to do away with the legal structure intended to protect the U.S. economy from a major disruption in the banking system.

In 1913 Congress passed the Federal Reserve Act, the first piece of banking legislation of this century to address the country's repeated banking panics. Among other things, it established a central bank system to provide liquidity to banks as needed to provide stability.

In part because the Federal Reserve didn't properly use its power to provide liquidity, thousands of banks failed during the early 1930s. As a result, Congress enacted the banking acts of 1933 and 1935, which included the National Bank Act, Glass-Steagall, the federal deposit insurance system, and significant amendments to the Federal Reserve Act.

To further protect the banking system, Congress passed the Bank Holding Company Act of 1956 to separate banking from commerce. In 1970, that law was amended to include corporations owning even a single bank.

No Dropouts

Like public utilities, banks are not allowed to operate unfettered in the marketplace; rather, they are given a limited market advantage of a geographic and activities franchise. In addition, they derive a market advantage from the federal safety net of deposit insurance and access to borrowing from the Federal Reserve.

These market advantages must still have value, because despite all the market opportunities allegedly now denied U.S. banks, I am not aware that any bank has relinquished its charter to engage in other business.

Economy Is Vulnerable

No one familiar with the yet unresolved thrift problem and numerous and substantial bank failures of the 1980s should have any doubt about the economy's vulnerability to misadventures in the banking system.

"No one familiar with the yet unresolved thrift problem and numerous and substantial bank failures of the 1980s should have any doubt about the economy's vulnerability to misadventures in the banking system."

Driven at least in part by deregulation of some activities and fueled by problems inherent in deposit insurance, these misadventures caused the insolvency of the Federal Savings and Loan Insurance Corp., the diminution of the reserves of the Federal Deposit Insurance Corp., and a huge but undetermined addition to the federal deficit.

Need for Change Unproven

I have reflected at length on the alleged competitive problems confronting U.S. banks to understand what could justify the advocated changes in spite of these problems of the 198Os. The allegations are unsupported

See **COMMENT** *page* **15**

THE LOBBYISTS

Sensing a Crisis, The Home Builders Step Up Their Efforts

Driven by a growing sense of crisis in the housing market, the **National Association of Home Builders** has stepped up lobbying of the federal banking regulatory agencies.

Frequent trips to the Office of Thrift Supervision spawned one notable success – a soon-to-be-issued rule easing limits on loans to one borrower. Surveys by the 157,000-member group show builders are pinched by credit tightening by banks and S&Ls.

Now the association is urging the thrift regulation office to loosen risk-based capital rules for construction loans-in-process. OTS districts want S&Ls to fully cover untapped portions, although banks hold only 50% capital for the off-balance-sheet liabilities. Builder lobbyists on Monday briefed **Jonathan Fiechter,** OTS's second-in-command, and **John Robinson,** senior policy official.

Jonathan Fiechter

Builder association officials have trooped to the thrift regulation office twice to meet with director **T. Timothy Ryan Jr.,** but two other banking regulators have come to them.

FDIC Chairman **L. William Seidman** and Comptroller of the Currency **Robert L. Clarke** spoke at the builders' May board meeting in Washington.

Introducing Mr. Clarke, association president **Martin Perlman,** a Houston builder, noted they once served together on the board of a Texas bank and boasted of teaching Mr. Clarke all he knows about construction lending.

A Supplemental Plan Of Deposit Insurance

With deposit insurance reform under serious review by the Treasury Department and sure to be a catalyst for major financial legislation next year, it's no surprise that a wide spectrum of industry players are trying to shape the reform debate. On Wednesday, **Peter J. Wallison** — former White House counsel to President Reagan and chief counsel at the Treasury Department under Donald Regan — entered the fray by offering his concept of private, supplemental deposit insurance. At a discussion at the **American Enterprise Institute** think tank here, Mr. Wallison, now a lawyer with the firm of **Gibson, Dunn & Crutcher,** explained his "supplemental deposit protection" system.

Peter J. Wallison

The system would rely on the earnings and capital of the banking industry to guarantee 100% of the deposits and liabilities of participating banks. The Bank Insurance Fund and Savings Association Insurance Fund of the **Federal Deposit Insurance Corp.** would remain as "backup insurers" for all deposits up to $100,000. "Too big to fail" issues would be resolved because all deposits and other liabilities of banks and S&Ls with assets over $1 billion would be guaranteed.

Since the system is voluntary for smaller institutions, these banks and S&Ls could continue with the current system, he argues. Mr. Wallison's views are similar to those of consultant **Bert Ely,** who is publishing his reform ideas in concert with the U.S. Chamber of Commerce.

* * *

Manufacturers Group Taps a Citicorp Exec

Charles Long, Citicorp's corporate secretary and head of the banking concern's Washington operation, has been named to the board of directors of the **National Association of Manufacturers.**

A spokesman for the trade group said Mr. Long is not the first banker to serve on the 210-member board, but said he is one of the few. "We're involved in lobbying on corporate governance and tax issues that are of interest to banks," the spokesman said.

* * *

Hunter Heads Bank Directors

A former **Federal National Mortgage Association** chairman, **Oakley Hunter,** is spearheading a newly formed association for bank directors.

Mr. Hunter, who is a director of a small bank in Bethesda, Md., is president of the **American Association of Bank Directors,** a group formed not only to educate bank directors, but to lobby for changes in the Financial Institutions Reform, Recovery, and Enforcement Act passed by Congress last summer.

The job of directing a bank or savings and loan has become increasingly risky because directors are now subject to huge civil penalties under the act.

"The feeling among the directors is that they needed representation," said **David H. Baris,** a partner in the Washington law firm of **Kennedy & Baris,** who is assisting in the group's startup.

After opening a month ago, the association is already looking at possible amendments to the new law concerning the money penalties against directors who have no knowledge of violations, Mr. Baris said.

The association also intends to conduct a survey of banks to determine whether directors have resigned because of the reform act, and whether banks are having trouble attracting new directors because of the law.

— Bill Atkinson, Debra Cope, Robert Trigaux, and Robert M. Garsson

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COMMUNITY BANKS

The Top 100 U.S. Community Banks

Based on the Return on Average Assets for 1989

Rank 1989		Return On Avg. Assets 1989	Return On Avg. Assets 1988	Return On Avg. Equity 1989	Return On Avg. Equity 1988	Overhead as a % of Assets 1989	Loans as a % of Assets 12/31/89	Total Assets ($000) 12/31/89	Total Deposits ($000) 12/31/89	3-Year Deposit Gr. Rate 1986-89	Net Income ($000) 1989	Net Income ($000) 1988	Full-time Empl. 12/31/89	Net Inc. Per Empl. ($000) 1989	Nr Inc. Per Empl. ($000) 1988
1	Kentucky-Farmers Bank, Catlettsburg	3.52	3.27	14.95	14.26	3.14	44.89	105,149	79,417	16.30	3,545	3,064	62	57	49
2	Pacific Heritage Bank, Torrance, Calif.	3.48	1.29	36.85	18.55	6.28	69.00	107,561	98,122	85.73	2,388	940	54	44	21
3	First State Bank, Dimmitt, Tex.★	3.38	1.77	40.86	20.66	3.16	56.87	76,489	69,239	32.26	2,321	952	39	60	34
4	Business Bank, Vienna, Va.★	3.31	2.45	25.59	18.66	5.66	49.58	67,848	57,438	-20.94	1,875	1,451	42	45	39
5	First State Bank, Columbus, Tex.	3.02	3.38	13.70	16.60	1.70	18.36	66,523	50,909	9.36	1,947	2,091	16	122	131
6	San Benito Bank & Trust Co., Tex.★	3.02	0.37	47.33	8.73	3.80	48.24	69,203	63,574	5.56	1,915	244	47	41	5
7	Farmers Savings Bank, Spencer, Ohio	2.91	2.59‡	10.44	12.81‡	1.64	49.78	55,501	39,427	47.56	1,518	952‡	12	127	79‡
8	Key Biscayne Bank & Trust Co., Fla.	2.91	3.18	18.05	20.90	2.00	20.40	112,978	94,051	2.39	3,141	3,403	44	71	76
9	Putnam County National Bank, Carmel, N.Y.	2.74	3.05	14.28	16.47	3.24	45.43	94,531	74,077	18.34	2,628	2,636	50	53	54
10	First Bank, Oak Park, Ill.★	2.64	2.11	28.15	25.50	5.54	73.10	124,175	109,837	12.95	3,217	2,650	76	42	34
11	Hinesville Bank, Ga.★	2.61	2.46	20.82	20.23	4.48	59.12	80,669	68,751	21.24	1,981	1,730	63	31	29
12	Lyndonville Savings Bank & Trust Co., Vt.	2.59	2.33	25.14	25.65	1.73	82.88	127,136	113,536	43.46	2,915	2,377	55	53	45
13	Western Community Bank, Corona, Calif.★	2.54	1.85	23.33	18.63	5.22	70.94	51,558	45,480	45.22	1,109	712	46	24	17
14	Pitkin County Bank & Trust Co., Aspen, Colo.★	2.49	2.16	34.05	29.53	2.81	73.17	76,980	70,923	70.62	1,528	989	32	48	34
15	Pioneer Trust Bank NA, Salem, Ore.★	2.46	3.05	15.46	19.90	2.59	26.07	93,476	78,883	19.92	2,054	2,321	49	42	50
16	Bank of Sunset & Trust Co., La.	2.44	2.25	10.54	9.98	1.54	17.37	52,897	40,352	29.33	1,219	1,046	17	72	62
17	McDowell County National Bank, Welch, W.Va.	2.43	2.95	9.97	12.39	1.84	33.39	110,992	82,735	10.06	2,672	3,143	36	74	87
18	Citizens Bank, Delavan, Wis.★	2.42	2.75	12.87	14.54	1.16	65.70	64,244	48,553	19.30	1,511	1,589	11	137	144
19	National Bank of Stamford, N.Y.	2.41	2.99	11.93	15.43	1.88	42.05	70,824	48,093	16.22	1,686	2,035	26	65	78
20	Western National Bank, Odessa, Tex.★	2.41	2.07	23.83	19.76	2.79	59.92	78,339	69,976	77.44	1,714	1,202	45	38	28
21	San Gabriel Valley Bank, El Monte, Calif.	2.39	1.44	26.98	20.80	5.31	64.74	50,285	44,997	6.86	1,095	646	49	22	14
22	National Bank of Coxsackie, N.Y.	2.34	2.44	17.44	19.56	2.36	53.72	71,120	60,250	25.54	1,615	1,594	37	44	44
23	Valley Bank, Moreno Valley, Calif.	2.33	1.69	27.68	21.36	5.40	43.96	59,279	53,513	43.85	1,293	805	78	17	12
24	City Bank, Lynnwood, Wash.	2.33	1.60	27.16	20.01	4.53	69.80	185,913	164,345	65.76	3,670	2,139	107	34	20
25	Mechanics National Bank, Paramount, Calif.	2.33	1.57	30.59	21.71	7.89	72.17	192,118	173,760	55.44	3,821	2,107	218	18	10
26	First National Bank, Wyoming, Del.	2.29	2.04	15.73	14.67	2.46	66.46	70,870	59,429	11.39	1,540	1,262	27	57	47
27	Saratoga National Bank, Calif.★	2.29	1.91	17.25	14.69	4.93	74.57	52,781	45,111	87.83	1,062	770	27	39	37
28	First National Bank, East Lansing, Mich.★	2.28	2.20	25.94	26.73	2.43	67.63	82,539	73,615	28.65	1,806	1,645	35	52	50
29	Houghton State Bank, Red Oak, Iowa★	2.26	2.08	24.63	23.81	3.39	59.31	60,704	54,462	-0.39	1,318	1,222	35	38	32
30	Farmers Bank, Windsor, Va.	2.24	2.35	12.82	12.85	2.00	79.08	63,231	51,546	38.48	1,321	1,178	21	63	62
31	Peoples State Bank, Hamtrack, Mich.	2.24	2.29	11.37	11.92	1.71	42.18	135,961	107,056	10.22	2,990	2,906	44	68	63
32	Winona National & Savings Bank, Minn.★	2.24	2.27	13.47	15.08	1.89	42.80	118,225	94,876	4.68	2,604	2,556	44	59	58
33	First National Bank, Wyoming, Pa.	2.24	1.69	12.23	10.08	1.53	62.81	51,835	41,322	11.24	1,167	870	20	58	41
34	Mid America Bank South, Mankato, Minn.★	2.22	1.31	24.72	13.37	3.60	50.69	88,877	80,308	94.92	1,284	580	35	37	28
35	Union Bank, Mena, Ark.★	2.21	1.94	24.71	17.66	2.87	64.08	64,471	58,151	10.75	1,408	1,230	50	28	25
36	Metairie Bank & Trust Co., La.	2.21	1.86	10.48	9.49	2.92	38.43	173,181	133,826	7.11	3,789	3,132	109	35	28
37	Citizens Bank, Fayette, Ala.★	2.20	2.31	10.76	12.01	1.37	31.46	91,319	71,029	7.40	1,951	1,960	26	75	78
38	Mission Viejo National Bank, Calif.★	2.20	1.80	34.74	34.58	9.73	47.74	131,553	120,639	161.06	2,377	1,254	105	23	16
39	Union Bank, Morrisville, Vt.★	2.19	2.34	25.42	28.85	3.00	84.47	112,429	100,512	38.83	2,320	2,235	77	30	31
40	First Security Bank, Searcy, Ark.	2.19	2.06	21.15	18.83	2.19	55.42	133,345	116,415	17.01	2,801	2,473	69	41	37
41	Citizens Bank, Carthage, Tenn.	2.18	2.29	15.65	16.18	1.30	55.30	164,881	138,435	32.17	3,436	3,175	50	69	64
42	Middleburg National Bank, Va.	2.18	2.09	20.24	21.46	2.13	71.44	104,418	92,072	9.47	2,194	2,008	32	69	65
43	Puyallup Valley Bank, Wash.	2.18	1.97	21.52	22.08	3.69	52.49	56,137	50,475	30.25	1,031	872	36	29	26
44	Kilbourn State Bank, Milwaukee	2.17	2.27	12.53	13.50	2.37	51.60	82,163	60,017	21.92	1,683	1,625	27	62	65
45	First National Bank, Clifton Forge, Va.	2.17	1.93	14.86	14.27	1.90	43.21	60,433	50,804	11.00	1,258	1,085	21	60	52
46	McCook National Bank, Neb.★	2.17	1.54	16.90	13.59	1.92	44.58	93,597	78,428	-9.71	1,980	1,426	36	55	40
47	First Bank & Trust Co. of Illinois, Palatine★	2.16	2.16	21.26	21.68	3.04	32.19	74,368	66,318	20.73	1,500	1,422	41	37	35
48	Redding Bank of Commerce, Calif.★	2.16	1.80	23.53	18.51	2.40	75.04	85,461	77,462	60.71	1,616	1,106	29	56	43
49	Peoples Bank of Bullitt Cty., Shepherdsville,Ky.	2.15	2.48	13.50	15.84	2.81	69.67	88,038	73,045	37.35	1,817	1,870	48	38	35
50	Bank of Sun Prairie, Wis.	2.15	2.28	12.50	13.73	2.78	67.23	98,162	80,419	6.79	1,992	1,983	56	36	38
51	Bank of Mountain View, Ark.	2.14	2.43	12.14	14.35	1.94	44.38	54,382	44,458	15.38	1,071	1,116	23	47	47
52	Bank of Southside Virginia, Carson★	2.14	2.05	17.05	16.79	2.49	62.72	150,311	129,336	28.07	2,982	2,640	70	43	43
53	Bunkie Bank & Trust Co., La.★	2.13	1.02	32.97	11.31	3.53	48.11	62,896	57,813	77.94	1,304	366	35	37	13
54	Centreville National Bank, Md.	2.12	2.14	18.84	19.54	1.85	66.34	115,235	101,528	29.50	2,279	2,086	35	65	61
55	Lamesa National Bank, Tex.★	2.12	0.66	23.86	6.08	1.80	44.10	113,310	101,375	21.51	2,425	705	39	62	18
56	Denver National Bank, Pa.	2.11	2.19	13.39	14.32	1.28	59.38	161,349	133,130	20.89	3,245	3,082	36	90	91
57	Citizens Bank, Rusk, Tex.	2.11	1.70	12.34	11.72	1.82	17.91	53,129	43,465	10.48	1,074	913	12	90	61
58	Bank of Roane County, Harriman, Tenn.	2.10	1.13	28.11	14.93	2.57	50.12	130,396	118,148	11.97	2,676	1,367	75	36	17
59	New Tripoli National Bank, Pa.★	2.09	2.05	13.84	13.92	2.08	73.07	71,482	59,896	32.43	1,428	1,303	23	62	57
60	Northern State Bank, Thief River Falls, Minn.	2.08	2.03	11.25	11.44	1.81	39.07	87,297	69,963	8.21	1,722	1,580	36	48	44
61	Byron Center State Bank, Mich.★	2.07	2.26	16.24	17.80	2.21	69.01	124,301	107,205	50.55	2,349	2,230	48	49	48
62	Torrance National Bank, Calif.	2.06	1.92	24.04	25.13	4.68	58.04	85,619	75,974	9.62	1,788	1,634	54	33	30
63	Western Security Bank NA, Burbank, Calif.★	2.06	1.14	24.19	14.96	5.42	66.14	76,985	69,556	73.91	1,316	677	41	32	19
64	Middletown Valley Bank, Md.	2.05	1.81	19.15	18.29	2.14	70.86	76,765	68,148	35.25	1,501	1,248	40	38	33
65	First National Bank, Taft, Tex.	2.05	1.74	22.17	20.24	1.85	13.16	50,017	44,632	4.17	971	752	17	57	44
66	Danville State Bank, Ark.★	2.04	2.24	20.56	24.10	1.63	52.73	82,691	73,765	14.40	1,632	1,655	32	51	53
67	Franklin County National Bank, Brookville, Ind.★	2.04	1.93	16.51	17.39	2.28	62.08	73,613	60,507	10.71	1,489	1,376	38	39	38
68	First State Bank, St. Charles, Mo.★	2.03	1.88	14.60	14.33	2.40	80.61	87,778	74,011	6.34	1,716	1,512	33	52	47
69	Pioneer Bank, Fullerton, Calif.★	2.01	1.77	26.08	26.03	5.02	74.40	151,296	137,033	49.89	2,812	2,101	79	36	31
70	Bank of Waldron, Ark.★	2.01	1.69	16.95	14.12	1.98	63.21	62,987	54,061	13.42	1,218	963	32	38	32
71	First National Bank, Dryden, N.Y.	2.00	1.99	17.19	17.54	2.34	52.93	57,886	50,120	16.21	1,162	1,085	29	40	37
72	Citizens Bank & Trust Co., Columbus, Neb.★	2.00	1.44	16.42	13.64	2.26	38.58	53,328	46,303	1.32	983	707	21	47	37
73	First State Bank, Stratford, Tex.★	1.99	1.94	18.27	17.09	1.92	43.22	60,840	53,947	17.19	1,139	1,075	22	52	49
74	First National Bank, Falfurrias, Tex.	1.99	1.71	11.13	9.70	2.14	18.63	50,132	41,306	8.05	910	743	29	31	23
75	Regency Bank, Fresno, Calif.	1.99	1.15	27.13	15.21	4.60	70.20	79,348	72,509	90.54	1,345	607	46	29	16
76	Berwyn National Bank, Ill.	1.98	0.97	13.21	6.31	2.78	14.46	67,815	56,811	16.81	1,280	598	42	30	13
77	St. Henry Bank, Ohio	1.97	2.22	14.10	17.54	1.74	70.10	74,524	62,487	14.18	1,459	1,569	11	133	143
78	Somersworth Bank, N.H.	1.97	1.75	33.64	29.07	0.98	77.89	163,871	151,579	125.46	3,062	2,238	22	139	86
79	Bank of Akron, N.Y.	1.97	1.59	14.66	12.27	2.22	38.61	54,810	46,940	22.86	1,042	801	26	40	32
80	County Bank, Merced, Calif.	1.97	1.50	29.71	23.31	4.52	69.48	121,344	111,686	92.57	1,868	1,172	94	20	17
81	Rancho Vista National Bank, Vista, Calif.	1.97	1.29	21.94	14.68	13.10	65.96	50,445	44,495	14.30	952	550	68	14	11
82	Citizens Bank, Moulton, Ala.★	1.96	1.70	12.62	11.39	2.64	42.03	58,151	48,312	23.10	1,092	884	40	27	22
83	Charter Pacific Bank, Agoura Hills, Calif.	1.96	1.33	24.05	18.36	6.97	65.41	69,196	62,697	39.27	1,115	686	59	19	15
84	Irving Bank, Chicago★	1.95	2.16	14.53	15.95	2.15	24.13	76,378	65,398	13.66	1,464	1,530	29	50	53
85	Valley of the Rogue Bank, Rogue River, Ore.★	1.95	1.98	21.53	24.45	4.03	61.41	86,927	78,901	55.22	1,502	1,388	90	17	18
86	Farmers & Merchants Bank-Eastern Shore, Onley, Va.	1.95	1.87	18.34	18.60	2.48	66.42	131,746	116,227	32.61	2,423	2,092	55	44	37
87	First Bank, Coon Rapids, Minn.★	1.94	1.71	18.77	19.19	4.44	62.34	58,597	51,685	9.69	1,126	1,000	53	21	17
88	Fowler State Bank, Ind.★	1.93	2.12	14.09	15.66	2.58	56.38	68,983	56,388	2.56	1,239	1,315	36	34	38
89	Neffs National Bank, Pa.★	1.93	2.00	16.45	17.69	1.52	64.27	65,595	56,654	38.57	1,221	1,124	15	81	75
90	Ralston Bank, Neb.	1.93	1.57	25.75	20.94	3.61	67.99	89,114	81,508	32.98	1,574	1,140	58	27	19
91	Elgin State Bank, Ill.★	1.92	1.95	20.97	22.70	2.89	65.39	79,651	71,614	42.99	1,474	1,349	44	34	34
92	Maywood-Proviso State Bank, Maywood, Ill.★	1.92	1.77	13.87	13.20	2.95	66.59	107,457	90,412	19.10	1,967	1,657	62	32	26
93	Borel Bank and Trust Co., San Mateo, Calif.	1.92	1.42	25.13	19.73	4.11	73.97	146,353	133,040	47.28	2,572	1,641	56	46	32
94	Bank of Commerce, Stilwell, Okla.	1.90	2.32	10.75	14.39	2.85	15.96	53,024	43,307	10.32	955	1,125	27	35	40
95	Commercial State Bank, Wagner, S.D.★	1.90	2.16	13.66	15.79	2.13	50.65	63,635	54,483	19.31	1,122	1,240	19	59	69
96	First National Bank, Shelby, N.C.	1.90	1.70	14.84	13.56	2.12	31.89	197,249	158,288	36.38	3,741	3,064	93	40	36
97	Kerman State Bank, Calif.	1.90	1.67	19.92	14.53	2.86	57.51	53,689	48,267	90.88	892	593	24	37	25
98	First National Bank, Floydada, Tex.★	1.90	1.58	17.89	14.76	1.62	26.82	58,595	51,068	10.57	1,132	914	19	60	48
99	Valley Bank of Kalispell, Mont.★	1.90	1.39	17.81	14.61	2.94	51.41	62,224	51,506	-2.26	1,176	856	36	33	22
100	Lawrence National Bank & Trust Co., Kan.★	1.90	1.28	18.77	13.24	3.72	70.23	68,663	61,078	16.65	1,263	863	43	29	21
	Average Values for Top 100 Banks in 1989	**2.23%**	**1.95%**	**19.67%**	**17.65%**	**3.06%**	**54%**	**88,862**	**76,190**	**29.9%**	**1,839**	**1,549**	**45**	**49**	**47**
	Average Values for Top 100 Banks in 1988[1]	**2.27%**	**1.93%**	**18.52%**	**16.43%**	**2.48%**	**51%**	**82,547**	**70,079**	**...**	**1,418**	**1,485**	**41**	**57**	**42**

Data Source: Data are from the federal regulatory "Reports of Condition and Income" filed by all federally-insured commercial banks. **BankSource,** a data base provided by **W.C. Ferguson & Co.,** Irving, Tex., was used to generate the listing. **Community Bank:** An FDIC-insured commercial bank that is independently owned, or owned by a one-bank holding company, and has assets between $50 million and $200 million on Dec. 31, 1989. The bank must be profitable in each of the last three years 1987-1989. U.S. bank subsidiaries of foreign banks are excluded. **Returns on Average Assets and Average Equity Capital:** net income for the year divided by average assets and average equity, respectively. **Overhead as a % of Assets:** overhead expense divided by average total assets. **Loans as a % of Assets:** total loans divided by total assets. **Deposit Growth Rate:** the percentage change in deposits over the period Dec. 31, 1986, to Dec. 31, 1989. **Net Income:** income after taxes but before extraordinary items. **Net Income Per Employee:** net income divided by the number of employees at the end of the period. **(★)** — Owned by a 1-bank holding co. **(‡)**— Data for 1987 were used because the 1988 data were sharply higher due to capital gains. **(1)**—Annualized data for 9/88. **Compiled by American Banker, Copyright 1990.**

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